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Subject: Article by Herr Abs, Member of the Board of Managers of the Deutsche Bank A.G., on the Role of the Commercial Banks in the Common Market.

Attached for the Department's information is an informal translation of an article by Herr Hermann J. Abs in the "Frankfurter Allgemeine" of September 4, 1957, on the role of the commercial banks in the Common Market. The article is based on a speech given by Herr Abs at the "European Forum" in Alpbach/Tyrol.

Enclosure:
as stated.

FOR THE AMBASSADOR

Wolfgang M. Brown
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UNOFFICIAL TRANSLATION

The Banks in the Common Market
by Hermann J. Abs

Before the "European Forum" in Alpbach (Tyrol) Mr. Hermann J. Abs, member of the Board of Managers of the Deutsche Bank A.G., gave an interesting lecture on the role played by the commercial banks in the financial and credit policy of an integrated Europe. In the following, we publish the most important parts.

The Editors.

For the time being, the activities of the commercial banks in Europe - disregarding of course the special foreign transactions - largely confine themselves to the individual nations. From this point of view, there exists no bank in Europe which is not a regional bank. The regional principle deserves full appreciation also in the future, and this not only for reasons of necessity because we would perhaps not be able to come to an agreement on a different arrangement, but as a consequence of the federalist structure in Western Europe. However, it appears to me difficult to anticipate in which way the above mentioned federalist principle shall be applied in the future in individual cases.

In a federally integrated Europe the policy of the national central banks will have to be divergent even if their goals are the same, in order to be able to achieve a higher degree of conformity among the national economic systems. Since it is the task of the central banks to neutralize the impact on the currency of disturbing influences caused by the state budgets or other national particularities, the cooperation among the central banks may show and prove itself by diametrically opposite measures. As long as tax policy, tax deadlines, the structure of public expenditures, furthermore, the indebtedness of the state towards the central banks as well as volume and type of capital formation and distribution are different, as long as particularly public influence on quality and quantity of investments is different and, besides, the economies in the individual countries react differently to high or low liquidity, the national central banks will in future pursue a different discount and open market policy and also use differently the other instruments for the regulation of money and credit supply. This may lead to situations for the commercial banks which may be different

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different in the individual countries.

The activity of the banks gets another national characteristic through divergent attitudes towards investment financing. It is not usual in any of the countries considered here that banks whose credit business is entirely based on short-term and medium-term deposits are granting long-term loans on a large scale. But there is a different degree of assistance offered in financing investments. The German commercial banks for example go a little further than the English banks. They particularly prefer to finance the success of industrial enterprises to a certain extent and on the whole participate as underwriters of issues. This difference is at present caused - if I disregard the importance of a long and established tradition - by the different volume of supply on the national capital markets and different magnitude of monetary capital of industrial and trading enterprises. But basically, there are differences of degree rather than kind. However, they have a considerable influence on the activities of the banks. Nevertheless, it appears to me that no country has reason to diverge from its organically grown banking structure and its principles of financing solely because of the growing of a common market.

I have pointed already at so many national particularities in the European banking system that some people may already suspect me to be a super-federalist or even a disguised opponent of European economic unity. This gives me the opportunity to successfully draw the attention to such things which should be and also could be the common cause of the commercial banks in an integrated Europe. It is the task of the commercial banks as banks in an integrated central bank - whatever the circumstances may be in the individual cases - to do the best in order to achieve a high degree of conformity among the national economic system. No matter whether measures of the central bank or the government for the regulation of the volume of money and credit supply are of obligatory or optional nature the commercial banks always have left a not inconsiderable amount of discretion for own decisions. Only general instructions can usually be given from above and not instructions designed for a particular case.

Above all, there is one thing which appears important to me to be said now in this connection. It is desirable for European integration and can also be realized that all central banks and commercial banks sincerely desire to do their best to maintain a stable value of money. Only if we succeed in this manner to fight the creeping inflation and to achieve a similar development of the domestic value of money in all participating countries can a more progressed stage of the Common Market or of any other type of integration be expected. Moreover, the banks should compete in articulating any dispensable subsidies and other methods of satisfying international competition. It has already turned out to be very useful that the commercial banks of European countries have to a large extent used

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6. common approach in this respect. Maybe, the continuously repeated concerns of the banks against a policy of unhesitant export promotion programs is the best example - whether they were put forward by banks in all participating countries, I dare not say. But I believe that I may mention as examples Great Britain, the Federal countries, and the German Federal Republic.

Also in other respects, it will be important that commercial banks reach a greater degree of understanding on the right principles of financing in the International Field. There is still a great temptation for business to use Government Investment assistance at the very start, to an unreasonable extent, and for doubtful purposes. I do by no means dispute that without it, it sometimes is impossible to succeed in realizing for example politically and economically necessary investments in underdeveloped areas. But, it is not easy to keep participation by the state within the proper limits. It appears to me that liberal-minded and socialist politicians could agree more on this question than they often do in practice. The decisions which have to be made should be based to a much larger extent on sober economic considerations rather than ideologies. Countries who are seriously busy to finance state subsidies are in many cases unable to defend themselves. Parliaments show a tendency of dangerous liberalism for reasons which are understandable - especially during pre-election periods - but nevertheless cannot always meet with our approval. Commercial banks are among those who have to take care that the voice of reason is not drowned. They are not interested parties with colored judgments since their transactions are not bound to be inspired by unsuitable state assistance.

The belief in the utility of special public funds is one of the evils which become again particularly noticeable in our times. Such funds have become generally rare in national public finance systems and are justly regarded with suspicion by everybody. Many, however, tend to regard them as necessary when they are available for supra-national institutions. In my respect, just the opposite seems to me to be the case. If industry considerations are given to the establishment of a fund and the examination of individual projects is only considered afterwards, it is only too easy to be tempted to utilize the fund without complying with all those conditions which should reasonably be considered necessary for international financial assistance. This should only be made available, for example, for purposes which cannot be achieved by adequate national efforts alone, and only for such projects which directly and materially promote the strengthening of territorial economic cooperation. Underserved financial assistance must be given - which can easily happen - because the projects which enter the consideration could not obtain adequate assistance.

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